

CITY OF KALAMA
Cowlitz County, Washington
January 1, 1992 Through December 31, 1993

Schedule Of Findings

1. The City Should Limit Expenditures To Budget Appropriations

City officials exceeded appropriated expenditures in one of the construction funds during 1993, as follows:

<u>Fund Name/Number</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Over Spent</u>
China Garden Road Project No. 301	\$- 0 -	\$283,271	\$283,271

Exceeding the expenditures appropriated in the final budget is contrary to RCW 35A.33.120, which states in part:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, the subject to further limitations imposed by ordinance of the code city, the expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

(1) The total amount appropriated for each fund in the budget for the current fiscal year . . . (Emphasis ours.)

In addition, RCW 35A.33.125 states:

Liabilities incurred by any officer or employee of the city in excess of any budget appropriations shall not be a liability of the city. The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund, except upon order of a court of competent jurisdiction or for emergencies as provided in this chapter. (Emphasis ours.)

This condition occurred because city officials did not include an appropriation for this fund in the original budget and did not amend the budget as expenditures accumulated. However, the city's 1993 financial statements inappropriately show a budget appropriation of \$365,497 for the China Garden Road Project Fund. In addition to violating state law, allowing expenditures to exceed appropriations weakens the budget process and associated internal controls over public expenditures.

We recommend the city monitor expenditures of all funds and make timely budget amendments to prevent expenditures from exceeding appropriations.

2. The City Should Improve Its Accounting And Reporting Internal Control Systems

During our audit of the city's internal controls, we found the following significant weaknesses:

- a. Payroll Disbursements - The same individual who prepares the city's payroll also prepares, signs, and distributes the payroll warrants. Additionally, she reconciles the treasurer's checking account used to redeem the warrants. Combining these duties inappropriately places her in control of the entire transaction sequence. Segregation of duties is critical to maintaining a system designed to reduce the potential for fraud or abuse.
- b. Claims Disbursements - The same individual who prepares the city's claims vouchers, claims warrants, and treasurer's checks, also signs audit approval of the transactions. These are incompatible duties when performed by the same employee.
- c. Accounts/Vouchers Payable - Vendor payment vouchers do not always contain approval by department heads, and were not consistently supported by original invoices. Warrant Registers listing the warrants approved by council did not always agree with the actual warrants issued. In addition, several warrants were issued without the required council approval. Voided warrants were not always retained. In two instances, payment information on the original warrants did not match the voucher copies. Departmental approval and auditing officer certification of vouchers, as well as council approval, is necessary to ensure that public funds are properly disbursed. The maintenance of complete and accurate accounting for warrants issued is critical to the city's cash control and the accounts payable system.
- d. Billings And Cash Receipting - Charges for water and sewer hook-up, line extensions, and similar non-routine charges are not numerically controlled. Additionally, the same employee preparing the billings often collects payments for these services. Such charges should be billed on pre-printed, pre-numbered invoice forms, with numeric completeness properly accounted for. Numeric control of billings and proper segregation of duties is imperative to ensure billings, credits, and cash collections are complete and accurate.
- e. Financial Reporting - The city's financial statements contained numerous errors in both 1992 and 1993, only two of which were material to the financial statements of their respective funds. During 1992, Street Fund revenues were understated by \$1,638.16, while Arterial Street Fund revenues were overstated by a like amount. This error was material to the Arterial Street Fund. During 1993, the city inappropriately reported \$365,497 as the budget for the China Garden Road Project Fund, when no budget had been legally appropriated for the fund. The fact these errors occurred and were not discovered before the erroneous statements were published, indicates the review system was inadequate. Care in the preparation and review of the financial statements is important. The city must accurately portray the financial condition of the city's funds. Further, accurate budget information displayed in the financial statements is necessary to indicate whether the city is in compliance with budget laws.

The weaknesses cited above expose the city to unnecessary risk of fraud, violation of Washington law, and inaccurate financial decisions. These conditions occurred because the clerk treasurer did not adequately consider these internal control matters when assigning duties within the city office.

We recommend that city officials take action to correct the above weaknesses and strengthen internal controls.